

#### Members

Sen. Becky Skillman, Chairperson  
Sen. Teresa Lubbers  
Sen. Allen Paul  
Sen. Mark Blade  
Sen. Earline Rogers  
Sen. Larry Lutz  
Rep. Robert Kuzman  
Rep. David Crooks  
Rep. John Frenz  
Rep. Robert Cherry  
Rep. Jack Lutz  
Rep. David Yount



## INTERIM STUDY COMMITTEE ON ECONOMIC DEVELOPMENT ISSUES

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Brian Tabor, Fiscal Analyst for the Committee

Authority: Legislative Council Resolution 99-1  
(Adopted May 26, 1999)

### MEETING MINUTES<sup>1</sup>

Meeting Date: October 26, 1999  
Meeting Time: 10:00 A.M.  
Meeting Place: State House, 200 W. Washington St.,  
Room 431  
Meeting City: Indianapolis, Indiana  
Meeting Number: 5

**Members Present:** Sen. Becky Skillman, Chairperson; Sen. Allen Paul; Sen. Mark Blade; Sen. Earline Rogers; Sen. Larry Lutz; Rep. Robert Kuzman; Rep. David Crooks; Rep. John Frenz; Rep. Robert Cherry; Rep. Jack Lutz; Rep. David Yount.

**Members Absent:** Sen. Teresa Lubbers.

Senator Becky Skillman, the Chair of the Committee, convened the Committee's fifth meeting at approximately 10:00 A.M. The minutes from the Committee's meeting on October 5, 1999, were approved by consent.

### **I. Bill Drafts**

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<sup>1</sup> Exhibits and other materials referenced in these minutes can be inspected and copied in the Legislative Information Center in Room 230 of the State House in Indianapolis, Indiana. Requests for copies may be mailed to the Legislative Information Center, Legislative Services Agency, 200 West Washington Street, Indianapolis, IN 46204-2789. A fee of \$0.15 per page and mailing costs will be charged for copies. These minutes are also available on the Internet at the General Assembly homepage. The URL address of the General Assembly homepage is <http://www.ai.org/legislative/>. No fee is charged for viewing, downloading, or printing minutes from the Internet.

A. PD 3524 (Tax Abatement for Research and Development Equipment)

Ed Gohmann, staff attorney for the Committee, then gave a summary of PD 3524, which would authorize local units to grant tax abatements for new research and development equipment. Brian Tabor, fiscal analyst for the Committee, briefly described the fiscal note that had been prepared for PD 3524. In presenting the fiscal note, Mr. Tabor commented that it is difficult to predict the amount of property tax burden shifting that would occur if local units were authorized to provide abatement for research and development equipment. He pointed out that the draft would provide another option for county and municipal government, but would not mandate any abatements.

Senator Skillman provided Committee members with a suggested change to PD 3524 that deleted the requirement that eligible research and development equipment must be located in a "separate facility," and she requested staff to make any additional technical modifications to ensure that the draft follows the language of HB 1554-1999, as passed by the Senate during 1999 Session.

Ms. Julie Newland of Eli Lilly and Company testified in support of PD 3524.

PD 3524, as amended by Sen. Skillman, was adopted by a unanimous consent vote of the eleven members of the Committee who were present.

B. PD 3525 (Sales Tax Exemption for Research and Development Equipment and Power Supplied for Research and Development)

Mr. Gohmann then gave a summary of PD 3525, which would do the following:

- (1) provide that the sale of power to a person for use in research and development is not subject to sales tax (the current exemption applies only to power used in manufacturing, mining, production, etc.);
- (2) provide that transactions involving research and development equipment are exempt from the state gross retail tax if the person acquiring the property acquires it for direct use in direct research and development (this would parallel existing sales tax exemptions for manufacturing equipment acquired for direct use in the direct production, manufacture, fabrication, etc., of other tangible personal property); and
- (3) provide a sales tax exemption for property acquired for direct consumption as a material to be consumed in direct research and development (this would parallel existing sales tax exemptions for property acquired for direct consumption as a material to be consumed in the direct production of other tangible personal property in the business of manufacturing, processing, refining, etc.).

Mr. Tabor then presented the fiscal note for PD 3525, stating that the projected impact was an annual reduction in sales tax collections of between \$49 million and \$91 million.

Representative John Frenz commented that many of the existing sales tax exemptions were authorized because the end product that was produced would be subject to sales tax, but that this would not be the case with the end product of much of the research and development activity. Representative Frenz also stated that he disagreed with the idea of providing an exemption for utility services used for research and development, because this would apply to research and development activities and equipment already located in Indiana.

Representative Cherry stated that some other states provide this type of sales tax exemption, and that by adopting it Indiana would be more competitive in attracting high-paying jobs. Senator Blade commented that this exemption, along with the measures concerning property tax abatements for research and development equipment and the measure to renew Indiana's research expense tax credit, would all fit together to provide a coherent economic development strategy.

Ms. Newland of Eli Lilly and Co. stated that approximately 25 states provide some type of sales tax exemption or credit for research and development equipment. In response to a question from Representative Bob Kuzman, Terry Magid of Eli Lilly and Co. explained that the amount of the exemptions and credits varies from state to state.

Senator Skillman commented that as part of Indiana's long range economic development efforts, the state should make it a priority to encourage research and development activities. She said that all three of the sales tax measures would do that, and that because the measures were good public policy they should be sent forward to the General Assembly and to the Senate Finance Committee and the House Ways and Means Committee for further debate.

PD 3525 was moved and seconded, and was adopted by the Committee on a 7 - 4 vote (YES: Sen. Skillman; Sen. Paul; Sen. Blade; Sen. Lutz; Rep. Cherry; Rep. Lutz; Rep. Yount. NO: Sen. Rogers; Rep. Kuzman; Rep. Crooks; Rep. Frenz.)

#### C. PD 3526 (Research Expense Credit)

Mr. Gohmann next summarized PD 3526, which would do the following:

- (1) make the research expense tax credit permanent by eliminating its expiration date (under existing law, the credit applies only to qualified research expenses incurred before January 1, 2000); and
- (2) modify the research expense tax credit by repealing the apportionment limit (for a taxpayer with income apportioned to Indiana, this provision currently limits the credit to the lesser of the taxpayer's Indiana qualified research expenses or its apportioned research expenses for the year; PD 3526 would provide that a taxpayer's credit is based solely on the taxpayer's Indiana qualified research expenses).

According to the fiscal note presented by Mr. Tabor, the cost of renewing the credit would be between \$10 million and \$15 million annually, and the elimination of the apportionment factor would increase the cost of the credit by approximately \$5.2 million annually.

After Committee discussion, PD 3526 was moved and seconded. The draft was adopted by a unanimous consent vote of the eleven members of the Committee who were present.

#### D. PD 3530 (Enterprise Zones)

Mr. Gohmann then described PD 3530, which would do the following:

- (1) provide that for purposes of the enterprise zone statutes, the term "zone business" includes an entity that claims certain tax benefits available to businesses located in an enterprise zone; and
- (2) specify that before a taxpayer may claim the enterprise zone loan interest credit, the taxpayer must: (1) pay the enterprise zone registration fee; (2) provide the

additional assistance to urban enterprise associations that is required from zone businesses; and (3) comply with any reinvestment requirements adopted by the enterprise zone board for taxpayers claiming the credit.

Mr. Tabor presented the fiscal note for PD 3530, stating that because few entities would be directly affected by this proposal, the fiscal impact would be minimal.

Senator Skillman recognized Ms. Connie Vickery, representing the Indiana Enterprise Zone Association. Ms. Vickery stated that without the changes included in PD 3530, reinvestment in enterprise zones would be greatly reduced.

After Committee discussion, PD 3530 was moved and seconded. The draft was adopted by a unanimous consent vote of the eleven members of the Committee who were present.

## **II. Proposed Final Report**

Senator Skillman noted that a draft final report had been mailed to Committee members and interested parties. She explained that the purpose of the draft was to provide a working document that could be used by Committee members as they developed a consensus on what should be included in the report adopted by the Committee and forwarded to the General Assembly.

Mr. Gohmann then briefly summarized the following components included in the Committee's draft final report: the Legislative Council Directive, the Introduction and Reason for Study, the Summary of the Work Program, the Summary of the Testimony, and the Committee Findings and Recommendations. Senator Skillman then read the proposed findings and recommendations, and asked Committee members for their comments and questions.

Representative Kuzman and Representative Frenz stated that they disagreed with the proposed language concerning enterprise zones (on page 26 of the draft report) stating that the recently enacted personal property tax credit will most likely lead to a decrease in the number of businesses participating in the enterprise zone program. They commented that there is insufficient data to make such a conclusion. After Committee discussion, the members agreed to delete that language from the proposed report.

When reviewing the provisions concerning property tax abatement, Representative Kuzman suggested that the flexibility of local governments be expanded to allow abatement for any number of years, not just 5 or 10 years (for manufacturing equipment) or 3, 6, or 10 years (for real property). He stated that he favored this expansion of local flexibility, but he recognized that the Committee had not heard testimony on the issue.

In reviewing the section of the report concerning capital formation, Representative Frenz stated that adequate capital is available for new Indiana businesses, and that if a start-up company cannot get the necessary capital, that probably means the market believes that business is not a good idea.

Representative Cherry suggested the following language be used in the section of the report concerning turning university research into marketable products:

(1) The General Assembly should create and provide funding for a statewide economic partnership between Purdue University, the State, and other state universities to build upon current strengths for a statewide delivery of services for existing businesses and the development of new businesses and jobs. Purdue University has a model for new business development, technical assistance, and

workforce development. The General Assembly should provide for a regionalization of this model through a statewide partnership based on the Purdue University programs.

(2) In the adoption of the next biennial state budget, the General Assembly should provide funding for the expansion of the Purdue Technical Assistance Program to 10 regional sites. This is one manner in which the state can facilitate the creation of marketable products and job growth from the resources and research of Indiana's universities. This effort will support the state's effort to assist existing businesses to be more productive and assist in the implementation of new technology and improved management practices.

(3) In the adoption of the next biennial state budget, the General Assembly should provide funding for the creation of regional technology centers. The Technology Center at Purdue University should serve as the leadership and service center for these regional technology centers. The General Assembly should create five regional technology centers each biennium, and should fund the start-up costs of these centers for four years. This will help speed up the commercialization of research and development of new small businesses, with an emphasis on high-skill, high-wage jobs.

(4) In the adoption of the next biennial state budget, the General Assembly should expand the program for specialists in community\economic development to rural and lesser-populated areas of the state to focus on working with local leadership and appropriate leaders on community and economic development issues.

Mr. Terry Streuh of Purdue University testified in favor of the proposed language. He stated that after the Committee had visited the Purdue Research Park and heard testimony concerning Purdue's economic development efforts, the university began a process of evaluating those efforts and considering how to expand those efforts statewide.

In response to a question from the Committee, Ms. Wendy Dant, Executive Director of the Indiana Rural Development Council, commented that the fourth proposed item was in line with the Council's program.

Senator Skillman suggested that the fourth item should be included in the section of the Committee's final report dealing with rural economic development issues. After Committee discussion, Representative Cherry's proposed changes and Senator Skillman's suggestion concerning placement were adopted by consent.

When reviewing the findings concerning gaming, Representative Kuzman stated that he wished to add the following provisions:

(1) The statement "Illinois riverboat casinos' adjusted gross receipts have increased dramatically since Illinois converted to dockside gaming" should be added to the findings concerning changes in adjusted gross receipts of Indiana and Illinois casinos.

(2) The statement "Illinois riverboat casinos' admissions figures have increased dramatically since Illinois converted to dockside gaming" should be added to the findings concerning changes in admissions of Indiana and Illinois casinos.

(3) The statement "Revenues received by the state of Indiana from the riverboat casino industry are the state's fifth largest source of income after sales tax, the individual income tax, corporate income taxes, and gasoline and motor fuel taxes"

should be added to the findings.

Representative Frenz suggested adding a statement noting that the findings concerning casino adjusted gross receipts and admissions are on a calendar month basis, and that July 1999 had five weekends, while June 1999 and August 1999 had only four weekends.

These suggestions were adopted by consent. After additional Committee discussion, the proposed final draft, as amended at the meeting, was adopted by a unanimous consent vote of the eleven members of the Committee who were present.

Senator Skillman then thanked the members, witnesses, and staff for their work during the interim. There being no further business, she then adjourned the meeting of the Committee at approximately 12:15 P.M.